

National Association of Purchasing Management

Report On Business®

July 5, 1988
Volume 6, Number 7

Index Leaps to 59.3%

Price Increase Growth Highest Since March 1980

Export Orders Continue To Expand

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

June Report

The economy expanded in June at the fastest rate of growth since December, say the nation's purchasing executives in their latest *Report on Business*. Growth of both production and new orders advanced at a brisk pace. Vendor deliveries slowed considerably, reflecting continued tightness in the availability of numerous commodities. Employment increased, revers-

ing the seasonally adjusted decline of the past three months. Inventories declined in June after increasing the previous two months. Prices increased slightly for the 21st consecutive month, mirroring the strong demand for increased production. New export orders continued to expand in June at a slightly faster rate of growth than in May. Of the 68% of members who say they export, 38% reported higher export orders, up from 35% in May, bringing the average for the first half of 1988 to 37.6%.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. Said Bretz: "The economy continues to expand at a vigorous rate, completing a second quarter somewhat stronger than the first. The brisk increase in new orders, unquestionably spurred by the significant gain in export orders, suggests the second half will at least begin with strong economic growth."

The **Purchasing Managers' Index** increased to 59.3%, up significantly from 55.1% in May. June marks the 23rd consecutive month this leading indicator has exceeded 50%. The 59.3% registered in June raises the average for the first half of 1988 to 55.8%. Past experience indicates that, if this average were to continue for the second half of 1988, it would be consistent with real GNP growth of about 3.6%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

After taking normal seasonal variations into consideration, employment barely increased in June after declining in the three previous months. The 20% reporting higher employment is the most since April 1987 (22%).

	% Higher	% Same	% Lower	Net
Employment				
June	20	64	16	+4
May	14	75	11	+3
April	16	73	11	+5

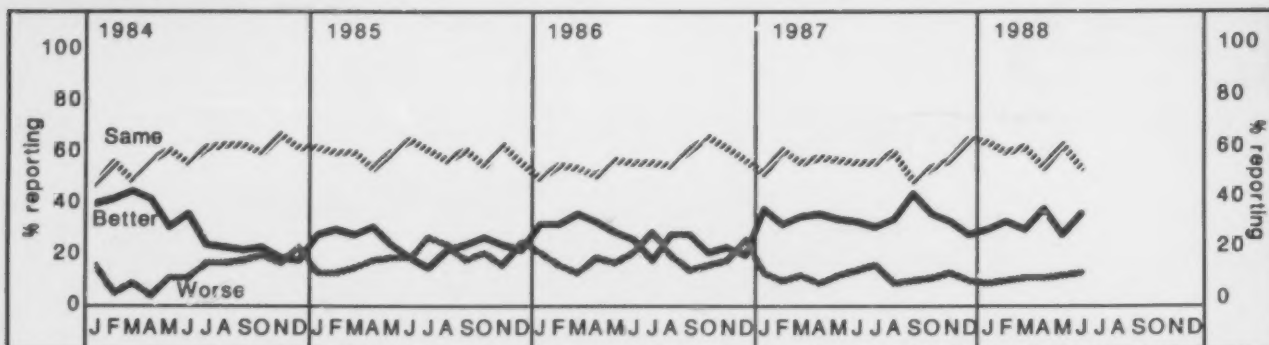
Buying Policy

Although plagued with slowing deliveries, shortages and increased production growth, purchasers kept lead times for production materials virtually unchanged. Lead times of 60 days or less for production materials were reported by 77% of members, down slightly from 78% in May. Lead times of 30 days and less for maintenance, repair and operating (MRO) supplies were reported by 82% of members, down significantly from 87% in May. Lead times for capital expenditures were shorter as 49% of members reported lead times of six months or longer, down sharply from 55% in May.

Percent Reporting

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials					
June	14	41	22	18	5
May	15	41	22	14	8
April	15	39	21	19	6
MRO Supplies					
June	36	46	15	2	1
May	38	49	10	3	0
April	36	48	13	3	0
Capital Expenditures					
June	10	7	10	24	49
May	9	6	11	19	55
April	8	7	16	15	54

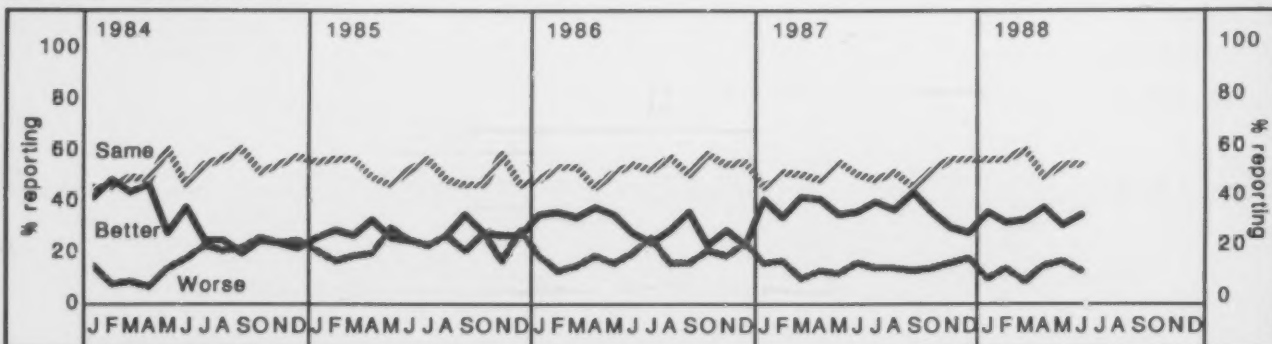
Production



Production also expanded for the 18th consecutive month. The number of members reporting better production increased to 35% from 27% in May and is about where it was in April (37%). However, when taking normal seasonal variations into consideration, the rate of growth in June is the highest since last October.

Production	% Better	% Same	% Worse	Net
June	35	53	12	+23
May	27	62	11	+16
April	37	53	10	+27

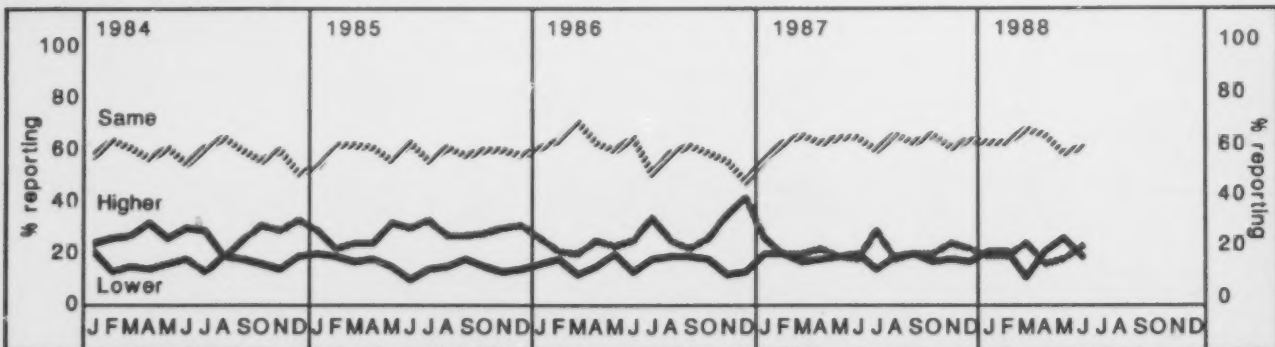
New Orders



June marked the 18th consecutive month that new orders have expanded. The net difference (+22) between the number of members reporting better new orders (34%) and worse (12%) increased from +14 in May and is about where it was in April (+23) and March (+24). However, considering normal seasonal variations, the rate of growth is the highest since October 1987 and signals a good beginning for production in the third quarter.

New Orders	% Better	% Same	% Worse	Net
June	34	54	12	+22
May	30	54	16	+14
April	37	49	14	+23

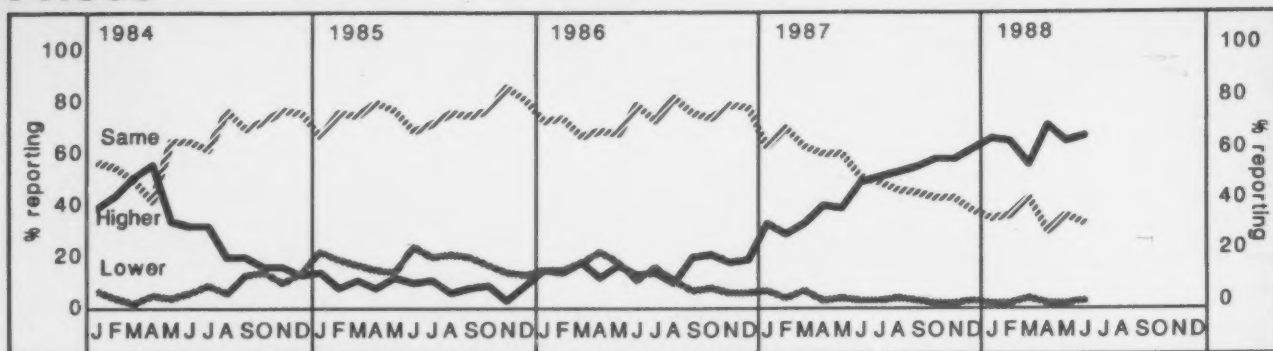
Inventories



Inventories declined slightly in June after increasing in May. Although purchasing managers report increased overall slowing in vendor deliveries and considerable difficulties in obtaining timely deliveries of numerous commodities in short supply, they persist in their efforts to keep inventories in line with production demand.

Inventories	% Higher	% Same	% Lower	Net
June	18	60	22	-4
May	25	58	17	+8
April	20	65	15	+5

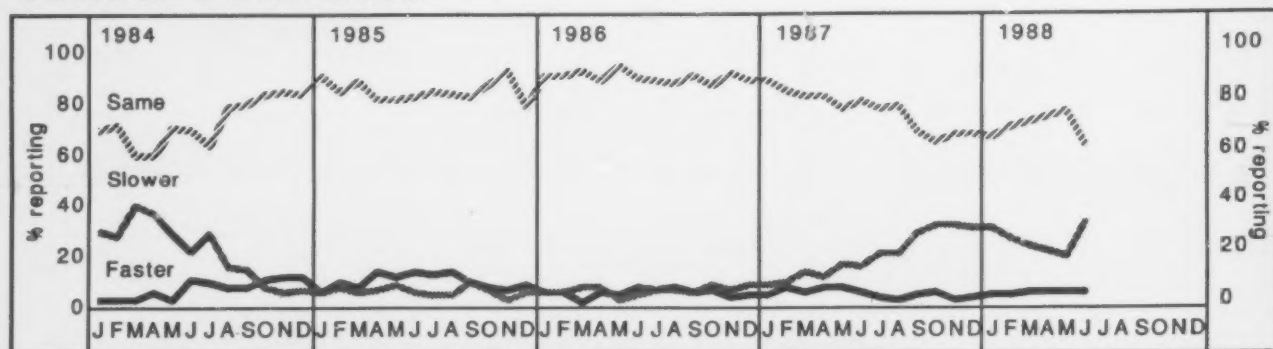
Prices



June was the 21st consecutive month in which more purchasers reported higher prices than lower. The net difference (+64) between those reporting higher prices (66%) and lower (2%) is up slightly from May (+63). However, after considering normal seasonal variations, the rate of growth in price increases is the highest since March 1980.

Prices	% Higher	% Same	% Lower	Net
June	66	32	2	+64
May	64	35	1	+63
April	70	29	1	+69

Vendor Deliveries



Purchasers reported slower deliveries from their vendors for the 21st consecutive month. The net difference (-27) between those members reporting slower deliveries (32%) and faster (5%) is up significantly from May (-14). Considering normal seasonal variations, the rate of increase in reports of slower deliveries is the highest since October 1987.

Vendor Deliveries	% Faster	% Same	% Slower	Net
June	5	63	32	-27
May	5	76	19	-14
April	5	74	21	-16

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (26th time in 27 months), printing paper (15th time in 18 months), paper products and packaging (fifth consecutive month), wood pulp (second consecutive month; used in making all grades of paper and linerboard), lumber, caustic soda (19th consecutive month; used heavily in paper-making, petroleum refining and soap-making), aluminum (17th consecutive month), brass (seventh time in eight months), copper (15th time in 16 months; some reports of price decreases), copper products, nickel (fourth consecutive month; used heavily in making stainless steel, plating metals and batteries), steel (21st time in 22 months), stainless steel (sixth consecutive month), steel products (eighth consecutive month), steel castings, steel pipe, zinc (fifth time in six months; used heavily in metal alloys and as a protective coating for metals), polyethylene (12th time in 13 months; used heavily in making packaging materials and paper coatings), plastic resins (12th time in 13 months), styrene (used chiefly in making synthetic rubber, plastic resins and plastic), plastic products (13th time in 14 months), ethylene oxide (third consecutive month; used in chemical synthesis, sterilization and fumigation), ethylene (10th time in 11 months; used

heavily in making ethylene oxide and plastic resins), ethylene derivatives (fourth time in five months), methanol (seventh consecutive month; used heavily as a solvent and in synthesizing other chemicals), titanium dioxide (third consecutive month; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), antifreeze, miscellaneous chemicals (ninth consecutive month), vegetable oils (used heavily in processed foods) and silicon (used heavily in making transistors, diodes and semi-conductors).

DOWN IN PRICE: None.

IN SHORT SUPPLY: Aluminum (ninth consecutive month), nickel (fourth consecutive month), steel (15th time in 16 months), hot- and cold-rolled steel sheets (14th consecutive month), stainless steel (sixth consecutive month), steel plate, printing paper (fourth consecutive month), caustic soda (13th consecutive month), styrene, polyethylene (second consecutive month), plastic resins (second consecutive month), ethylene oxide (fourth consecutive month), ethylene glycol (used heavily in making antifreeze, brake fluid, plastic paint and ink), ethylene (third consecutive month), ethylene derivatives (a fire at a major ethylene and ethylene-derivative plant is causing shortages and allocations), phenol (third consecutive month; used heavily in making phenolic resins), methanol (seventh consecutive month; caused primarily by a plant fire), methyl ethyl ketone (third consecutive month; used heavily as a chemical solvent in surface coatings and in making resins), methylene diisocyanate (MDI; used in making rigid urethane foam plastics), titanium dioxide (11th consecutive month), DRAMS, particularly 256K and

1-megabit dynamic electronic memory devices (fourth consecutive month; used heavily in computers), and miscellaneous chemicals.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly *Purchasing Managers' Composite Index* for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

Note: The next issue of *Report on Business* will be available August 1.

Commodity Reports

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., Frost Inc., Grand Rapids, Michigan.

Cadmium: Although reports indicate that more cadmium metal was produced domestically in the first quarter of 1988 than the previous quarter, the supply was very tight and prices ranged from \$2.90 to \$3.20 per pound, which was approximately three times higher than the same quarter of 1987.

The major factor for the increase in price and demand was the fast growth of the nickel cadmium battery industry, especially in Japan.

Also, eastern European consumption of cadmium increased and less material was available from China, U.S.S.R. and Australia. This caused the shortfall to worsen and prices increased to \$3.50 per pound and up early in February.

By mid-February, prices had jumped to \$7.00 to \$7.50 with very little material available. Some producers stopped or limited sales until some stability returned to the market.

Indications were that the Japanese battery producers had purchased large amounts of European cadmium on forward contracts. As a result, less material was available in the marketplace.

The big increase in price was early in March when domestic producer levels reached \$8.50 and \$10.60 per pound, and the merchant level went to \$9.20 and \$10.00 per pound.

Demand slowed somewhat late in May and prices eased as a result of consumers buying just the bare minimum amount to keep their pro-

duction going. Merchant prices dropped slightly. This caused some consumers to re-enter the market and caused another slight firming of prices.

At this time the future is uncertain. But prices of cadmium metal will probably remain firm and should ease off during the summer months when demand is usually down. (Wilfred P. Brandes, Kraft Chemical Company, Melrose Park, Illinois)

Zinc: Labor strikes at North American zinc production facilities in 1986-87 had driven metal stocks to below average levels. When, in early 1988, demand remained at record levels and production interruptions plagued the industry, supplies became tight and prices were pushed from a January low of \$.445/lb. to mid-June highs of \$.635/lb. Although some North American producers metal appears to be available "at a price," the weak dollar has discouraged traders from importing sufficient quantities of metal to completely cover the strong spot demand. Traders and producers consequently realize higher prices.

The forecast for the balance of 1988 is optimistic for zinc producers. The U.S. Mint, whose June 21 tender attracted \$.70/lb. and signalled imminently higher prices, has announced another tender with bids due June 28. In addition to expectations for continued strong demand and a weak U.S. dollar, the current market momentum should serve to keep 1988 prices well above historical averages. (Victoria P. Rad-

ick, National Steel Corporation, Pittsburgh, Pennsylvania)

Wood Products

Prepared by the N.A.P.M. Wood Products Committee. Chair: Samuel Craven, Pope & Talbot, Inc., Portland, Oregon.

The new construction industry and the secondary market (remodel and repair) have both shown better-than-anticipated stability during the past winter.

The outlook for the balance of 1988 is that the wood products industry should continue to be strong with both supply and pricing stable.

As in all industries, this is contingent upon interest rates holding steady and no big rise in inflation.

Another factor is the labor situation in the Northwest. Union contracts were up June 1 and some walkouts were experienced. This can, of course, reduce the supply and increase prices for available material. It is felt that although there are some major items at stake, agreements should be reached without any long-term strikes.

Lumber by-products (i.e., chips, sawdust and hog fuel) are in demand, as the pulp market continues to be strong. By-products are a major factor in the income of most mills.

The hardwood and veneer market continues to be strong with no major downturn in sight this year. The industry is driven by supply and demand, and prices can fluctuate quickly. Hopefully, interest rates and inflation will be stable, which will keep the demand for these products at a stable level through the year.